7 core elements of a loan portfolio management system

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contents

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introduction

There has been significant investment in lending technology in recent years – from loan origination systems and automated decisioning tools to the post-funding environment that involves loan management and monitoring practices. This article addresses the nine mission-critical components that should be included in an effective post-funding portfolio management environment.

In the past, banks and credit unions have utilized bits and pieces of the nine components discussed here. Some have resided in the commercial lending system, others in loan pricing systems or collateral management systems. But a fully integrated portfolio management system takes all of this data out of its silos and uses it for business intelligence. Further, the portfolio management system itself does not live in a silo. It lives in an integrated environment where it can interact with the loan origination system, core business data, and other systems used for the underwriting and documentation of commercial facilities.

> Fully-integrated portfolio management systems take data out of individual silos and use it for business intelligence.

Here are the core elements of a modern loan portfolio management system:

1. financial statement tracking

(including secure electronic delivery of new information)

Commercial lending systems can now incorporate an online transfer of key financial statements and tax return data, which is used to populate origination systems. This technology can be used to ensure that a borrower's financial history remains up to date within your institution. This will not only serve to clear exceptions, it will also aid in covenant tracking and even help predict future financing needs. Refreshed financial statements can also be added to historical financials previously collected by your institution, allowing for continuously updated spreads and almost immediate responses to new loan requests.

2. collateral evaluations

(including borrowing base calculations, when appropriate)

The latest portfolio management systems now include direct access to integrated collateral management data, regardless of the collateral type. Whether tracking real estate, securities, rolling stock, working capital assets, or any other type of collateral, real time evaluations have simply become standard for most portfolio managers. Separate collateral management systems used in the past will no longer live in a silo, but will be integrated into the larger environment of the portfolio management system.

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3. covenant tracking

Assuming you have current financial statement and collateral data as already mentioned, the next logical step in portfolio management is to use it to monitor loan covenants. Systems can be automated to periodically recalculate covenants based on refreshed financial data and then send status and compliance reports to lending units within your institution, whether the individual credit officers or a central compliance area. Measuring and tracking covenants can be done within the same system.

4. exception tracking

An effective portfolio management system should do more than track covenants and financial data. When exceptions are present, the system should incorporate a strategy for clearing them by placing tasks into the credit officer's daily work queue. Some exception clearing processes can be automated, while others may require direct officer acknowledgement and action.

Data integration and automation can reduce loan renewal costs by as much as 80%.

5. renewal automation

The act of renewing a loan or line of credit represents the continuation of an existing relationship. Most analysts agree that the typical business loan renewal costs your organization somewhere between $2,000 and $3,000. For every 100 facilities you renew annually, that represents an added cost of $200,000 or more.

Through the integration of formerly siloed data, renewal systems can now be armed with much better detail regarding the latest financial information available. In addition to simply letting your team know that an upcoming renewal requires action, most renewal functions can be integrated with your loan decision engine. This can be seen when you break down the process of renewing each loan:

- Notification to the borrower and the credit officer that the loan is approaching a renewal event. This task can now be fully automated.

- Approval of the renewed facility – By borrowing from new loan origination systems, the process of signing off on renewals can be done electronically. For facilities that must go to a credit committee, the process can still save significant time.

- Collection of all financial documents required to underwrite the renewal. This can now be done electronically and can be initiated during step one above.

- Documentation of the renewal – Integration with loan documentation systems can now automate the renewal process.

- Collection and confirmation of all collateral valuation documents needed to approve the renewal. This too can be automated to a significant degree.

- Loan closing – In many cases this can be done through electronic signature.

- Underwriting of the renewal by the credit officer or centralized approval areas in your organization.

- Recording documents and updating internal systems to reflect the renewal terms. Integration with core systems creates the time savings for this step.

Most of these steps can and should be automated to the point that they simply enter a work queue for your team to act on so that they get resolved quickly. When these systems are implemented, your savings should be at least 50%, but more likely 70 – 80% on the average loan.

6. notices & alerts for lenders and c-level managers

The modern portfolio management system should incorporate the notices and alerts that have previously been part of commercial lending systems. Due to the availability of a wider range of integrated data, these alerts can now be expanded to include all aspects of portfolio management, from exception clearing activities to new potential sales opportunities. Further, the alerts can be customized based on the personnel that need the information the most, whether it involves a direct lending function, compliance, sales, or C-level oversight.

7. general portfolio-level measures to include:

- **Concentration management and NAICS evaluations** – The system should produce C-level dashboards and reports that allow management teams to see where they may have concentrations. This tool could also allow the institution to measure caps on specific loan types and industry sectors.

- **Stress testing** – The portfolio management system should have the capability to stress test commercial portfolios based on NAICS concentrations and external market conditions.

- **Portfolio- and loan-level risk scoring** – Ideally, a portfolio management system would include the ability to apply a customized risk score at the loan and relationship levels. This would tie into the stress testing tools, and the data would roll up into portfolio level analysis for use in C-level and board-level presentations. Note that traditional risk ratings would be a component of each risk score, but that the risk score could be more detailed and more dynamic than the risk rating.

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The removal of data silos in favor of a more integrated approach can lead to much greater lender efficiency, faster response times, and stronger relationships with long-term borrowers.

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